105th Congress, 1st Session: No. 7 **March 10, 1997**

INFORMED BUDGETEER

THE ADMINISTRATION'S BALANCING ACT ACCORDING TO CBO

- Last week the Congressional Budget Office (CBO) released its "Preliminary Analysis of the President's Budgetary Proposals for Fiscal Year 1998". The final report won't be available until early April. The analysis found that President Clinton's FY 1998 Budget would not result in a $17 billion surplus in 2002, but a $69 billion deficit instead.

- CBO also reported that the President's budget policies would increase next year's deficit by $24 billion, resulting in a $145 billion deficit in FY 1998.

- Informed Budgeteers will recall discussions of "back loaded cuts" in the President's budget. According to CBO 98.5% of President Clinton's deficit reduction occurs in the last two years of his plan.

- In addition the report found that the President's Medicare plan also comes up short. The proposal would save $82 billion over five years, not $100 billion as the Administration has claimed.

- The only way the President's plan gets to balance is through his "trigger" (see "the President's Quick Trigger Finger below and "Show Me the Balance" in the February 17th *Bulletin*). This trigger would result in a $27 billion increase in taxes, a $34 billion cut in domestic spending, and a $23 billion reduction in entitlements in the years 2001 and 2002.

EFFECT ON THE DEFICIT OF THE PRESIDENT'S BASIC BUDGETARY POLICIES
(By Fiscal Year, $ in Billions)

	1997	1998	1999	2000	2001	2002	Total
Baseline[A]	115	121	145	159	142	153	NA
Revenues:							
Reductions	1	21	21	22	27	28	120
Increases	-1	-11	-16	-17	-18	-19	-81
Subtotal	*	10	5	5	10	9	39
Outlays:							
Discretionary	*	9	-3	-13	-29	-42	-79
Mandatory	*	5	-6	-17	-26	-46	-90
Total Policies	1	23	-3	-24	-46	-79	-129
Debt Service	*	1	1	*	-2	-5	-4
Deficit Effect	1	24	-2	-24	-47	-84	-133
Resulting Deficit	116	145	142	135	95	**69**	NA

SOURCE: Congressional Budget Office; Notes: Estimates contained in this table exclude alternative policies to eliminate the deficit hole under CBO assumptions. *=less than 500 million.
[A]Includes Fiscal Dividend and discretionary spending that increases with inflation subject to the statutory cap for 1998.
[B]Revenue estimates differ somewhat from those published by the JCT. CBO has used Administration estimates for two proposals that JCT was unable to estimate because they are not yet specified- a new aviation fee system and a District of Columbia tax incentive program. CBO's estimates also include additional fee proposals and exclude a proposal that would only affect outlays. In addition they assume that tax cuts specified in statutory language to sunset in 2000 are extended permanently.

Different Revenue Estimates

- The CBO/Joint Committee on Taxation analysis of the President's tax proposals concludes (without a trigger) that a 5-year net tax cut of $39 billion would result.

- The Administration's budget estimated (without the trigger) that the 5- year net tax cut would be $22 billion. What accounts for the nearly $17 billion difference?

- In general both CBO/JCT and the administration project about the same level of tax increases -- $80 billion over the next 5 years. However, the CBO/JCT estimates about $16.4 billion more tax cuts.

- Where? CBO/JCT estimates $1.3 billion larger tax cuts from the Administration's child tax credit proposal; the largest, $10.4 billion more tax relief from expanded IRAs; $4.4 billion more relief from education tax incentives; and $1.4 billion more capital gains cuts from home sales.

DIFFERENCES IN REVENUE ESTIMATES
($ in Billions)

	1998-2002
Child Credit:	
CBO/JCT	-47.3
Administration	-46.0
Difference	1.3
Expand IRAs	
CBO/JCT	-15.9
Administration	-5.5
Difference	10.4
Education tax incentives	
CBO/JCT	-40.5
Administration	-36.1
Difference	4.4
Capital gains for home sales	
CBO/JCT	-2.8
Administration	-1.4
Difference	1.4
Total Tax Relief	
CBO/JCT	102.9
Administration	119.2
Difference	16.4

SOURCE: Senate Budget Committee, CBO and JCT Estimates.

- The following provisions were included in CBO revenue estimates but not in the Adminstration's: (1) Everglades Restoration Fund Sugar fee, (2) revenue effect of Adminstration's proposal to provide grants to states for health insurance for the unemployed; and (3) school construction interest subsidy revenue effect.

- On the other hand the Adminstration included reduced revenues from assuming a reduced federal pay raise, which CBO considers an indirect affect and did not include in its estimates.

The President's Quick Trigger Finger

SELECTED PROGRAM CUTS UNDER THE PRESIDENT'S TRIGGER
(BA in Millions)

	2001	2002	Total
Head Start	-205	-217	-422
Special Education	-182	-187	-369
Education for the disadvantaged	-349	-358	-707
Pell Grants	-335	-345	-680
National Institutes of Health	-537	-532	-1,069
Veterans Hospitals	-710	-712	-1,422
Women, Infants and Children	-174	-179	-353
Federal Bureau of Investigation	-113	-117	-230
Immigration and Naturalzation	-72	-75	-147
Federal Aviation Administration	-364	-374	-738
Federal Highways	-724	-728	-1,452
National Science Foundation	-134	-135	-269
Environmental Protection Agency	-281	-285	-566
National Parks	-52	-53	-105

SOURCE: Senate Budget Committee GOP Staff estimates.

✎ EDITOR'S NOTE: The full CBO report, "Preliminary Analysis of the President's Budgetary Proposals for Fiscal Year 1998" will be available on the Senate Budget Committee web site by the end of the week. The web site address is http://www.senate.gov/~budget/ republican.

BUDGET STUDIES

CBO STUDY: THE POTENTIAL EFFECTS OF TAX RESTRUCTURING ON NONPROFIT INSTITUTIONS

- Last week CBO issued a study of the potential economic effects of various tax reform proposals on nonprofit institutions. The paper reviews the current tax treatment of nonprofit institutions and analyzes how provisions in recent proposals for tax restructuring could affect their operations.

- The study notes that the current law tax preferences that benefit nonprofit institutions the most are exemption from paying taxes, deductibility of charitable contributions from individual and corporate income, and eligibility to use proceeds from tax-exempt bond issues to raise capital.

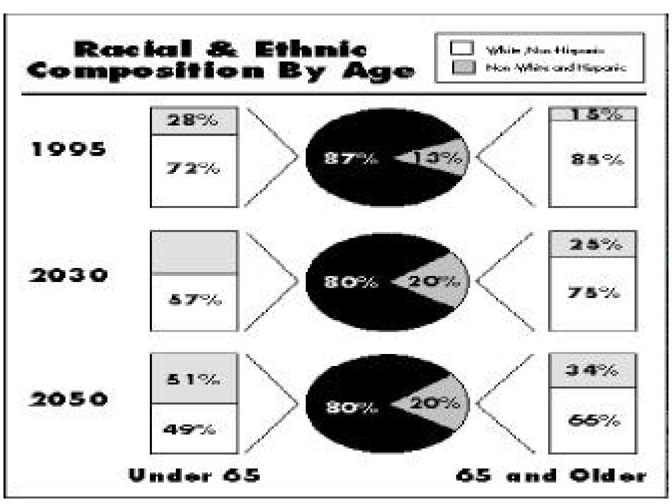
- All tax reform proposals except the VAT provide tax-exemption for some or all nonprofit institutions, but the benefits of tax exemption would be more limited than now, mainly because the rates of the proposed business taxes are generally lower than corporate rates under current law.

- Most proposals--including the Nunn- Domenici USA tax, various flat taxes, the VAT and the national retail sales tax--would eliminate the deduction for corporate charitable contributions (such gifts totals $6.1 billion in 1994). Some proposals--the flat taxes, the ten percent plan, and the VAT--would also do away with the deduction for charitable contributions by individuals (which totaled $105.1 billion in 1994).

- The study concludes that the USA tax seems less likely than other proposals to lead to a decrease in giving relative to current law, and it could conceivably lead to an increase. The current tax system treats spending and saving the same way and offers preferential treatment to charity, whereas the USA tax would offer preferential treatment to savings as well as charitable contributions.

- The sales tax, the VAT, and the flat taxes would repeal preferential treatment of tax-exempt bond interest. The USA tax and the ten percent plan would retain preferential treatment.

The Road Ahead: Budget Factoid



ECONOMICS

BROADER STOCK OWNERSHIP

- Many analysts will cite the growing popularity of mutual funds as one reason behind the Dow's recent rally. The Federal Reserve's recent Survey of Consumer Finances provides further evidence of the rise in retail equity holdings.

- The survey shows that the percentage of families having some direct or indirect stock ownership rose from 31.7 percent in 1989 to 41.1 percent in 1995.

- This rise was helped by both 1) a rise in the ratio of financial assets to total family assets and 2) an investment shift from checking deposits and CDs, to stocks, mutual funds and retirement accounts.

- The following table shows how the composition of family's financial assets has changed since 1989. It provides the ratio of each type of asset to total financial assets.

FAMILY FINANCIAL ASSETS			
	1989	1992	1995
Transaction Accounts[A]	19.7%	17.7%	13.5%
Certificates of Deposit	10.4%	8.2%	5.5%
Bonds	11.0%	8.5%	5.5%
Stocks	**14.6%**	**16.6%**	**18.0%**
Mutual Funds	**5.0%**	**7.7%**	**13.2%**
Retirement Accounts	**18.8%**	**24.4%**	**25.1%**
Other	20.5%	16.9%	19.2%
TOTAL	100%	100%	100%

[A]Includes Checking Accounts

CALENDAR

March 11, 1997: Senate Budget Committee Hearing on the House Coalition Budget. Witnesses testifying before the committee will be U.S. Representative David Minge and U.S. Representative Charles Stenholm, Co-Chairs of the House Budget Task Force. The hearing will be at 10:00 am in SD-608.

March 12, 1997: Joint Senate and House Budget Committee Hearing, Budget Isssues and the States, Governors testifying include: Governor Branstad (Iowa), Governor Ridge (Pa), Governor Voinovich (Ohio), Governor Miller (Nevada), Governor Patton (Kentucky). The hearing will be at 9:30 am in **SD- 106.**

BUDGET COMMITTEE DEPARTURES

Bill Dauster, Minority Staff Director and Tony Dresden, Minority Communications Director will both be leaving the Committee. Bill Dauster leaves the committee after ten years of service, and Tony Dresden has been with the committee since 1992. While formidable Democratic staff, the Republican staff would still like to wish both departing "budgeteers" success in their new positions.

The Majority staff would also like to welcome Bruce King, who will be joining the Committee as the new Minority Staff Director.